

Oil + Gas
Lease



Robert L Woodburn
TIOGA COUNTY CLERK

16 Court St PO Box 307
Owego, NY 13827
(607) 687-8660
Fax: (607) 687-4612

Instrument Number
154216-001

No. of Pages: 3

Delivered By: UNITED FIELD SERVICES INC

Receipt No. 154216

Return To:

MEGA ENERGY INC
9085 E MINERAL CIRCLE
SUITE 190
ENGLEWOOD CO 80112

DATE: 02/29/2008

Time: 11:24 AM

Document Type: EASEMENT/LEASE

Parties To Transaction: SNEDAKER-MEGA ENERGY INC

Deed Information

Consideration: \$0.00

Transfer Tax: \$0.00

RETT No: 01715

State of New York
Tioga County Clerk

Mortgage Information

Mortgage Amount

Basic Mtge. Tax:

Special Mtge. Tax:

Additional Mtge. Tax:

Mortgage Serial No.:

This sheet constitutes the Clerk endorsement required by Section 316-A(5) & Section 319 of the Real Property Law of the State of New York. DO NOT DETACH

Tioga County Clerk



PAID UP OIL & GAS LEASE

THIS AGREEMENT, made this 5th of December 2007, by and between Reid D. Snedaker, whose address is 1067 E. Campville Rd., Endicott, NY 13760 hereinafter referred to as "Lessor" (whether singular or plural) and Mega Energy, Inc. a Colorado Corporation, 9085 E. Mineral Circle, Suite 270, Englewood, Colorado 80112, hereinafter referred to as "Lessee";

1. That for and in consideration of the sum of TEN DOLLARS (\$10.00), cash in hand paid, the receipt of which is hereby acknowledged, and the further consideration of the covenants and agreements herein contained, Lessor does hereby Grant, Demise, Lease, and Let exclusively unto said Lessee, its successors and assigns, the land hereinafter described, with the exclusive right for the purpose of drilling, mining, exploring by geophysical and other methods, and operating for and producing therefrom oil, gas, coalbed methane gas, casinghead gas, casinghead gasoline, and all associated hydrocarbons, and for the purpose of storing any kind of gas as provided in Paragraph 15 hereof, together with the right to construct, replace, repair and maintain pipelines, telephone and electric lines, tanks, compressor and meter house stations, cathodic protection devices, ponds, roadways, and fixtures for producing, treating, maintaining and caring for such products and the exclusive right to inject air, gas, water, brine and other fluids from any source into the subsurface strata and any and all other rights and privileges necessary, incident to, or convenient for the economical operation of said land, alone or conjointly with neighboring land, for the production, saving, storing and taking care of oil, gas and the injection of air, gas, water, brine and other fluids into the subsurface strata. The land leased hereby is all that certain tract of land situated in the

Township/District of Owego, County of Tioga, State of New York and bounded, now or formerly as follows:

On the North by 132.00-1-40.112; various small lots; E. Campville Road
 On the East by 131.12-1-3 & 4; 131.16-1-12; various small lots
 On the South by E. Campville Road; 131.16-2-11.1; 131.20-1-14.1
 On the West by 131.16-1-1.1; 131.20-1-10

and containing 65.25 acres, more or less, hereinafter called the "leased premises", and being the same land conveyed to Lessor by Will by Deed Dated and recorded in Book 633 at Page 291 in the records of said County, Tax Map numbers: 131.16-1-10

2. This lease also covers and includes any and all lands owned or claimed by the Lessor adjacent or contiguous to the land described hereinabove, whether the same be in said survey or in adjacent surveys, although not included within the boundaries of the lands described above. For the purpose of calculating rental payments hereafter provided for, the lands covered hereby are estimated to comprise 65.25 acres, whether it actually comprises more or less.

3. TERM: Subject to the other provisions herein contained, this lease shall be for a term of five (5) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said leased premises or land with which said leased premises is pooled hereunder, or drilling operations are continuously prosecuted, or said land is used for gas storage purposes or substance injection purposes. If, after the expiration of the primary term of this lease, production from the above described land should cease and said land is not then being used for gas storage purposes, this lease shall not terminate if Lessee is then prosecuting drilling operation, or, within ninety (90) days after any such cessation of production commences reworking or drilling operation. This lease shall remain in force so long as such operations are continuously prosecuted and, if production results therefrom, then as long thereafter as oil or gas is produced from the above described land or said land is used for gas storage purposes as provided in Paragraph 15 hereof.

4. ROYALTIES AND RENTALS: Lessee covenants and agrees as follows:

A. Oil Production Royalty - To pay the Lessor, as a royalty for all oil and the constituents thereof produced and saved from any well or wells drilled on the lease premises, and amount equal to one-eighth (1/8th) of the price received by the Lessee from the sale of such oil in the tanks, pipelines, or other facilities, to which the Lessee may connect its wells.

B. Gas Production Royalty - To pay Lessor as royalty for all gas and the constituents thereof, (except stored gas and gas produced from any storage horizon), including all liquid, solid or gaseous substances produced and saved from any sand or sands and/or formations on the leased premises, an amount equal to one-eighth (1/8th) of the price received by the Lessee from the sale of such gas and the constituents thereof at the well head.

C. Storage Rental - To pay Lessor an annual rental of Four Dollars per net acre (\$4.00/acre) as payment in full for the storage rights set forth in paragraph 15 below. This lease shall remain in full force and effect, provided the above storage rentals are paid, as long as leased premises is utilized for storage purposes.

D. Shut-In Royalty - If the Lessee drills a well (except gas storage wells), capable of production upon the leased premises and for any reason does not turn the same into pipelines within one (1) year, then the Lessee shall pay a shut-in royalty to the Lessor. The shut-in royalty, in such events, shall be equal to One Hundred Dollars (\$100.00) per year for each well that is shut-in, and shall continue until such time as production is resumed. In no event shall this lease terminate or become void for nonpayment of shut-in royalty, unless the Lessee shall refuse or neglect to pay or perform the same for sixty (60) days after having received written notice by certified mail, return receipt requested, from the Lessor of his intention to declare such default.

E. Deferral - Lessee may defer payment of any sum due Lessor, or to any payee hereunder, until the total sum due to Lessor or to such payee shall equal Fifty Dollars (\$50.00), whereupon payment shall promptly be made. In any event, monies due shall be disbursed by December 31 for that calendar year.

5. PAYMENTS: All payments under this lease may be made in cash or by check or draft payable to the order of Lessor residing at same as above. If six or more parties become entitled to payments hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

6. OUTSTANDING INTERESTS: The rentals, royalties and payments herein specified are intended to be paid for a 100% ownership of the oil and gas. If Lessor owns less than a 100% interest of the oil and gas, the rental, royalty and other payments shall be reduced to equal the interest actually owned by the Lessor (i.e., if Lessor owns only a 50% interest in the oil and gas, then the rental, royalty and other payments shall automatically be reduced to 50% of the amounts herein specified.)

7. FREE GAS: If Lessor owns the surface overlying the gas herein leased, then Lessor hereby excepts and reserves from one well on said land producing gas an amount of gas not to exceed two hundred thousand (200,000) cubic feet per year for Lessor's own use for heat and light in one (1) dwelling house on said land at Lessor's own risk. Lessor shall be entitled to receive the free gas when and as long as Lessee may elect to produce or operate well on the aforesaid leased premises. prior to connection, any authorized party receiving free gas shall execute a House Gas Connection Agreement to be furnished by Lessee. Lessor shall lay the necessary lines and make connections at Lessor's expense at such point on the lease premises as may be designated by the Lessee, and shall be measured by meter furnished by the Lessee. The regulation of such gas will be by regulator, furnished by Lessor and approved by Lessee, being placed at the well head or other designated point of connection as designated by Lessee. Gas shall be used at Lessor's own risk. Lessee shall not be liable to the Lessor for any interruption or insufficient supply of such gas. If more than two hundred thousand (200,000) cubic feet per year is used, the excess shall be paid for by Lessor at the same rate at which Lessee sells other gas produced from the well at the wellhead. In case of default in payment for gas used in excess of said two hundred thousand (200,000) cubic feet, Lessee is hereby authorized to terminate the free gas connection or deduct the amount thereof from any royalty or other payments that are then due or may later become due under the terms of this lease. If Lessor does not own the surface, then Lessee may furnish free gas to the surface owner at its election, but, in such event, Lessor shall not be compensated for usage by the Lessee or the surface owner. Lessee reserves the right to cease providing gas to the Lessor or Surface Owner under the terms of this lease and any other agreements if, by virtue of the provision of gas to the Lessor or Surface Owner, Lessee is found to be engaging in public utility operations subject to the jurisdiction of local, state and/or federal regulatory agencies.

8. SEISMIC: Lessor grants to Lessee and Lessee's geophysical agents the right and permission to conduct seismic operations across the lands described herein and which are subject to this oil and gas lease. Lessee and Lessee's geophysical agents are hereby granted, for both personnel and equipment, access to the lands for the Purpose of conducting the seismic operations including, but not limited to, surveying, and the acquisition of seismic data. Lessee agrees to protect Lessor from any and all claims and damages that may result from the seismic operations conducted hereunder. Lessee and Lessee's geophysical agent will conduct seismic operations in such a manner as to leave the surface of the land in as near the original condition as reasonably possible. Lessee shall pay for any extraordinary damages after the completion of the seismic operations.

9. DRY HOLE: If at any time during the primary term of this lease and prior to the discovery of oil or gas on the leased premises, Lessee shall complete the drilling of a dry hole, or if at any time during the primary term of this lease, all of the wells on the lease premises shall cease to be capable of producing oil or gas, then beginning with the next ensuing rental payment date, Lessee shall resume and be liable during the remainder of said primary term for the payments or rental, in the manner and amount herein provided, until Lessee shall at its option either commence reworking operations or operations for the drilling of an additional well on said leased premises, or surrender this lease.

10. SUBROGATION: Lessor agrees that Lessee shall have the right at any time to pay and discharge any and all taxes, mortgages or other liens and encumbrances upon the leased premises for Lessor, either before or after maturity and be subrogated to the right of this holder thereof and to deduct amounts so paid from royalties, or other payments payable or which become payable to Lessor and/or assigns under this lease.

11. TRANSFERS/DISPUTES: In the event this lease or any rights hereunder are transferred by Lessor, or Lessor's heirs, personal representatives or assigns, Lessor agrees to furnish Lessee a copy of the recorded instrument by which such transfer was accomplished, together with a memorandum of the mailing address of such transferee. All rental or royalty then or thereafter due may be withheld and retained by Lessee, without responsibility or interest, until such covenant is satisfied by Lessor. No changes of ownership, or right to receive rentals or royalties, shall be binding on Lessee until sixty (60) days after Lessee has been furnished such notification by Lessor or Lessor's successor.

Lessee shall have the right to withhold and retain all sums payable hereunder which are subject to controversy or dispute until the final settlement of such controversy or dispute. Lessee shall then distribute the withheld and retained sums to those lawfully entitled thereto. Lessee shall not be held accountable for interest on said monies withheld or retained during these periods.

12. **RESOURCES:** Lessee shall have the right to use, free of royalty or any other charge, gas, oil, and water from the leased premises for drilling and production operation of the leased premises. Said rights shall include, but are not limited to injection, compression, dehydration, distillation, pumping and heat.

13. **DWELLINGS:** No well shall be drilled nearer than two hundred (200) feet to any dwelling house now on the lease premises without written consent.

14. **POOLING:** Lessee shall have the right to pool or unitize the leased acreage, or any part or parts thereof, with other tracts so as to form a drilling unit or pool. operations upon the pooled acreage for all purposes except royalty or free gas shall be deemed to have occurred upon the leased premise. Lessor shall receive as royalties for minerals produced and marketed from the pooled area an amount equal to the proportion that Lessor's acreage placed in the pooled area bears to the total acreage in the pooled area.

15. **STORAGE:** Lessee shall have the exclusive right to employ any stratum or strata underlying said leased premises (except any stratum bearing portable water or workable coal) for the storage of any kind of gas, from whatever source obtained, and may for this purpose reopen and restore to operation any and all abandoned wells on the premises which may have penetrated such stratum or strata, or may drill new wells, thereon for the purpose of introducing and storing any kind of gas in any such stratum or strata and recovering the same therefrom. It is agreed and understood that a well need not be drilled on said leased premises to permit the storage of gas. Lessee shall be the sole judge as to whether gas is being stored within the leased premises and Lessee's determination in respect thereto shall be final and conclusive. As full compensation for the storage rights herein granted and in lieu of all delay rental or royalty due or to become due on the production or removal of stored gas from lead premises, Lessee agrees to pay Lessor an annual rental of Four Dollars per net acre (\$4.00/acre), commencing with the date of first utilization of any such stratum or strata for gas storage purpose and for as long thereafter as any such stratum or strata be so utilized, such annual rental to be paid within three months after the commencement of each annual period of utilization for storage purposes. Lessee agrees to give Lessor written notice of the use and the leased premises for gas storage purposes and of the use of any well drilled thereon for gas storage purposes. In the event any stratum or strata utilized for gas storage purposes contains an economically recoverable reserve of native gas, Lessee agrees to compensate Lessor for Lessor's royalty on such gas at the prevailing well head market price in the vicinity at the time Lessee gives notice of uses of the leased premises for gas storage purposes for gas of comparable quality, the volume of such gas to be based on an estimate of such reserves by accepted geological methods. Should Lessee fail or make default in any of the covenants, conditions, or obligations of lease, express or implied, relating to gas storage rights, such failure or default shall not defeat or affect this lease insofar as it covers such other rights and, in like manner, should Lessee fail or make default in any of the covenants, conditions or obligations of Lessee, express or implied, relating to such other rights, such as failure or default shall not defeat or affect this lease insofar as it covers the rights granted in this Paragraph 15.

16. **FORFEITURE:** This lease shall not be forfeited or terminated for failure of Lessee to perform in whole or in part any of its express or implied covenants, conditions or obligations until it shall have been first judicially determined that such failure exists, and Lessee shall have been given a reasonable time after such final determination within which to comply with any such covenants, conditions, or obligations.

17. **WARRANTY OF TITLE:** Lessor hereby generally warrants and agrees to defend its title to the leased premises, and covenants that Lessee shall have quiet possession of the leased premises.

18. **FORCE MAJEURE:** In the event Lessee is rendered unable, in whole or in part, to carry out its obligations under this agreement, other than to make payments of amounts due hereunder, its obligation so far as they are affected by such **FORCE MAJEURE** shall be suspended during the continuance of any inability so caused. The term "**FORCE MAJEURE**" as used herein shall be Acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, wars, blockades, riots, epidemics, lightning, earthquakes, flood, or other severe weather conditions, fire, explosions, accidents or repairs to machinery or pipes, delays of carriers, inability to obtain materials or rights of way on reasonable terms, acts of public authorities, or any other cause, whether or not of the same kind as enumerated herein, not within the control of the Lessee and which by the exercise of due diligence Lessee is unable to overcome.

19. **EXTENSION OF PRIMARY TERM:** Lessee has the option to extend the primary term of this Lease for one additional term of 5 years from the expiration of the primary term of this Lease; said extension to be under the same terms and conditions as contained in this Lease. Lessee may exercise this option to extend this lease if on or before the expiration date of the primary term of this Lease, Lessee pays or tenders to the Lessor or to the Lessor's credit an amount equal to the initial consideration given for the execution hereof. Exercise of this option is at Lessee's sole discretion and may be invoked by Lessee where no alternative provision of the Lease extends this Lease beyond the primary term.

20. **SURRENDER:** Lessee at anytime may surrender this lease as to all or any part or parts of the leased premises by recording an appropriate instrument of surrender in the proper county and thereupon, this lease, and the rights and obligations of the parties hereunder, shall terminate as to the part or parts so surrendered. Upon such surrender as to any part or parts of the leased premises, the rentals specified above shall be proportionately reduced on a surface acreage basis, and Lessee shall have reasonable and convenient easements for pipelines, electric and communications pole lines, roadways, and other facilities through and over the portions of the leased premises surrendered for the purpose of continuing operations on the portions of the leased premises retained.

21. **ENVIRONMENTAL INDEMNIFICATION:** Lessor agrees to indemnify and hold Lessee harmless from and against all claims, damages and liabilities arising out of any violation of any federal, state or local environmental statute attributable to operations conducted on the leased premises by Lessor or other parties.

22. **APPLICATION OF LAWS:** All express or implied covenants of this lease shall be subject to all applicable Federal and State laws, executive orders, rules or regulations, and this lease shall not be terminated in whole or in part, nor shall Lessee be held liable in damages, for failure to comply therewith if compliance is prevented by, or if such failure is the result of, any such law, order, rule or regulation.

23. **ENTIRE CONTRACT:** This lease states the entire contract between the parties, and no representation or promise, verbal or written, on behalf of either party shall be binding unless contained herein. This contract shall be binding upon each of the parties who shall execute the same regardless of whether or not all of the parties named as Lessor shall execute it.

The parties hereto agree that this is a Paid-Up Lease agreement with no further payments due Lessor during the primary term hereof, save and except any and all royalty, storage rental and/or shut-in royalty due hereunder.

IF THIS LEASE BECOMES FORFEITED, TERMINATED, OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE IS REQUIRED TO PROVIDE A DOCUMENT CANCELING THE LEASE AS OF THE RECORD, AT NO COST TO THE CURRENT LANDOWNER. IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPEL A CANCELLATION PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATION LAW.

THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU. YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELED THIS CONTRACT. IN ORDER TO CANCEL THIS LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW, MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE-DAY CANCELLATION PERIOD. THE MAILING MUST BE POSTMARKED WITHIN THE THREE-DAY CANCELLATION PERIOD TO BE EFFECTIVE.

NOTICE OF CANCELLATION

I/WE HEREBY CANCEL THIS LEASE.

DATED:

SIGNATURE(S):

THE PERSON PRESENTING THIS LEASE TO YOU IS [X] NOT [] A MEMBER OF THE AMERICAN ASSOCIATION OF PROFESSIONAL LANDMEN AND THEREFORE IS [X] IS NOT [] SUBJECT TO A CODE OF CONDUCT. IF THE PERSON PRESENTING THIS LEASE TO YOU IS SUBJECT TO A CODE OF CONDUCT, A COPY OF THE CODE OF CONDUCT MUST BE PRESENTED TO YOU WITH THIS LEASE. IF APPLICABLE, THE CODE OF CONDUCT PROVIDES A DISPUTE RESOLUTION MECHANISM FOR ANY DISPUTE THAT YOU MAY HAVE REGARDING THE MANNER BY WHICH THIS LEASE WAS PRESENTED TO YOU. IF YOU HAVE ANY SUCH DISPUTE, YOU MAY INVOKE THE DISPUTE RESOLUTION MECHANISM OF THE CODE OF CONDUCT BY CONTACTING THE PERSON OR PERSONS DESIGNATED IN THE CODE OF CONDUCT. THE FAILURE OF THE LESSEE TO PAY ANY ROYALTIES TO YOU AS REQUIRED UNDER THE TERMS OF THE LEASE FOR A PERIOD OF FOUR CONSECUTIVE MONTHS OR MORE SHALL BE A DEFAULT UNLESS OTHERWISE PROVIDED BY LAW, AND WILL RESULT IN CANCELLATION OF THE LEASE APPLICABLE TO THE TARGET FORMATION OF THE WELL WITHIN THE SPACING UNIT, FOLLOWING WRITTEN NOTIFICATION TO THE LESSEE OF YOUR INTENT TO CANCEL AND SIXTY DAYS FOR THE LESSEE TO CURE THE DEFAULT. IF THE LESSEE HAS A BONA FIDE DISPUTE REGARDING THE GROUNDS FOR CANCELLATION, SUCH DISPUTE AND THE REASONS THEREFOR MUST BE PROVIDED TO YOU IN WRITING OR THE DEFAULT MUST BE CURED WITHIN SUCH SIXTY-DAY PERIOD. OTHERWISE THE LEASE SHALL BE CANCELED.

IN WITNESS WHEREOF, Lessor hereunto sets hand and seal.

This LEASE may be signed in COUNTERPART. ALL payments to: MARIETTA H. SNEDAKER

Subscribing Witness _____

(Seal) *[Signature]*

Date of Execution 12/11/07

Subscribing Witness _____

(Seal) _____

Date of Execution _____

ACKNOWLEDGEMENT OF SUBSCRIBING WITNESS

State of New York:

County of _____:

On _____ before me, the undersigned, a Notary Public in and for said State, personally appeared _____, the subscribing witness to the foregoing instrument, with whom I am personally acquainted, who, being by me duly sworn, did depose and say that he/she/they reside(s) in _____; that he/she/they know(s) _____ to be the individual(s) described in and who executed the foregoing instrument; that said subscribing witness was present and saw said _____ execute the same; and that said witness at the same time subscribed his/her/their names(s) as a witness thereto.

My commission expires _____

Signature / Notary Public _____

Name / Notary Public (print) _____

ACKNOWLEDGEMENT

State of WISCONSIN:

County of WAUKESHA:

On DECEMBER 11, 2007

X

before me, the undersigned, a Notary Public in and for said State, personally appeared Reid D. SNEDAKER, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

My commission expires AUGUST 31, 2008

Signature / Notary Public *[Signature]*

Name / Notary Public (print) AMY JO BERGE

Recorder: Return to Mega Energy, Inc., 9085 E. Mineral Circle, Suite 190, Englewood, Colorado 80112

